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Remarks

Executive Secretary

19 Sept 85

Date

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United States Department of State

Washington, D.C. 20520

September 18, 1985

Executive Registry

85- 111/3

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Senior Interagency Group No. 34


TO : NSC - Mr. William Martin

Commerce - Mrs. Helen Robbins
Defense - Col. David Brown
Energy - Mr. William V. Vitale
Interior - Mr. Stephen Gleason
OMB - Dr. Alton Keel
Transportation - Mrs. Ruth Knouse
Treasury - Mrs. Sherrie Cooksey
USTR - Amb. Michael Smith

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SUBJECT: IESG Meeting, September 10, 1985: Summary
of Discussion

Attached are a Summary of Discussion of the IESG meeting held on September 10, 1985, and a list of those who attended.


Nicholas Platt
Executive Secretary

Attachments:

As Stated.

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DECL: OADR



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Summary of Discussion of the IESG Meeting:
September 10, 1985

The meeting was chaired by Under Secretary Wallis who noted that, although no decisions needed to be taken, it was important to have an exchange of views among IESG members on key energy issues facing the group.

Agenda Item 1 - Oil Market Developments

John Brodman (DOE) and [] briefed the group on the current oil market situation. Mr. Brodman noted that OECD oil demand in 3Q85 would probably be down 3% over 3Q84 and that 1985 OECD oil demand could well be down 2.5% over the previous year. Current OPEC production was estimated at 14.5 mbd, 1.5 mbd below the ceiling. Oil prices, after firming the past several weeks, were showing signs of weakening, particularly in light of speculation that Saudi Arabia would change to a more market-based pricing policy.

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[] estimated that 4Q85 oil demand could go up 1 mbd, partly due to lower than traditional 3Q inventory build. Saudi Arabia and Iraq would try to capture most of the increase in demand.

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He noted there were signs the Iran/Iraq conflict was heating up. Although there have been nine Iraqi attacks on Kharg Island since August 15, only the first did any significant damage (to the T-jetty), damage which is now being repaired.

Agenda Item II - US/Japan Energy Working Group meeting

Allan Wendt (State) reported there would be two meetings with Japan in the coming weeks. The US/Japan Energy Experts will meet September 14/15 in Anchorage and the US/Japan Energy Working Group will meet on September 20 during the sub-Cabinet consultations.

Mr. Wendt noted that progress on US/Japan energy issues has been less than spectacular, partly due to market conditions. On the negative side:

- coal exports continue to drop;
- LNG trade is not growing;
- Alaskan oil exports are still prohibited, despite Administration wishes to lift the restrictions;
- US uranium enrichment sales are encountering stiff competition from the French.

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On the positive side:

- at the IEA Ministerial July 9, Japan agreed to open its market to all product imports, including gasoline and kerosene (currently prohibited);
- pre-feasibility studies on North Slope natural gas and Beluga coal in Alaska have started;

Mr. Wendt noted that Japan is the weak link in IEA energy security and that competitive U.S. energy exports could help Japan overcome its dependence on non-OECD sources. The forthcoming meetings will be yet another occasion to impress upon the Japanese our desire to increase energy exports (including uranium enrichment services) and the necessity of early, decisive action on product imports.

Mr. Bradley (DOE) noted that the US was losing market share in uranium enrichment sales. He stressed that it would be cheaper for Japan to rely on the US as a supplier than to build up domestic enrichment capacity. Mr. Wallis, noting that the IESG had generally not dealt with nuclear matters, indicated that the sale of DOE enrichment services was nevertheless appropriate for the group to discuss.

Agenda Item III - IEA Ministerial Decision on Product Imports

Mr. Wendt reported that the main issue at the July 9 IEA Ministerial was open markets for product trade. Now that all countries have agreed to maintain or create open markets, the critical issue is how fast Japan will move to take concrete steps to open its market to gasoline and kerosene imports. Other results of the IEA meeting were:

- re-affirmation of the 1983 Ministerial conclusions on energy security, particularly on natural gas;
- re-affirmation of the July 1984 Governing Board decision on the use of stocks in a supply disruption and agreement that the IEA place itself rapidly in a position to use the decision effectively;
- agreement to expand international collaboration in energy R&D;
- successful staving off of efforts by some IEA countries to expand 'producer/consumer' relations beyond technical level information exchanges.

Agenda Item IV - US/Korea Energy Working Group

Mr. Bradley reported on the August 26/27 meeting of the US/Korea Energy Working Group, held in Seoul. Most of the

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energy issues are similar to those the U.S. has with Japan, and DOE would in particular like to press uranium enrichment sales. Eric Melby (State), who participated in the meeting, reported there was a useful exchange of views, with some progress on convening a coal seminar, although no decisions were taken.

Agenda Item V - Preparations for AST-5

Mr. Bradley reported that arrangements were well underway for AST-5 due to begin end-September. The purpose of the exercise is to train individuals within the IEA system (companies, governments and the Secretariat) on the mechanics of the system.

Agenda Item VI - ECE Senior Advisors meeting

Mr. Wendt reported that the UN Economic Commission for Europe (ECE) will hold a meeting of Senior Advisors on Energy September 23-27 in Geneva. The group has not met in four years. The US is not enthusiastic about the meeting but, in sending a low-level delegation, will try to restrict the work program to technical exchanges and meetings and to avoid encouraging increased East/West energy trade or a high-level meeting on energy.

Agenda Item VII - Viability of the Uranium Industry

Mr. Bradley reported that the Secretary of Energy is required by law to do an annual review, which is underway, of the viability of the domestic uranium industry. There is tough competition from the uranium industry in Australia and Canada, whose governments, Mr. Wendt noted, have indicated their concern about protectionist measures.

Mr. Wallis and Mr. Taft (OMB) noted that there were a lot of ramifications, including trade policy problems, inherent in the Secretary's determination and urged DOE to consult with other interested Agencies, perhaps through the EPC, before reaching a decision.

Agenda Item VIII - Request for Oil Product Import Investigation

Mr. Diebold (Commerce) read an interim response Secretary Baldrige has sent to the Senators who requested a Section 232 investigation of product imports. Messrs. Wallis, Wendt and Bradley all urged Commerce to consult closely with others

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before taking any action as the issue affects other Agencies such as State and DOE. Mr. Diebold said Commerce would coordinate closely with these Agencies and the Department of Defense.

Mr. Wallis asked where we stood on the issue of banning oil product imports from Libya. Mr. Bradley argued in favor of using Sec. 504 of the Foreign Assistance Act instead of Sec. 232 of the Trade Expansion Act. Mr. Wendt said views were divided on this issue within the Department of State. Mr. Wallis urged a speedy resolution so that we could go forward with a recommendation.

Agenda Items IX and X

These issues were not discussed.

William Martin (NSC) said there were several issues the NSC believed the IESG should re-examine. They were:

- Iran/Iraq conflict: the conflict had potential for flaring up again. IEA countries should be strongly encouraged to follow-up aggressively on their July 1984 commitment to build stocks;
- Soviet gas: we need to continue working with the Norwegians to ensure Norwegian gas gets to the market in a timely fashion;
- US coal: increased efforts need to be made to work with the US coal industry to expand exports.
- Product imports: the NSC sees this as the key energy issue currently. It is critical that the IEA produce a good study, endorsed by the Governing Board, on the benefits of free trade in oil product and how the Ministerial decision is being implemented. This study could be used as ammunition against domestic proponents of protectionism.

Mr. Martin also suggested thought be given to a Presidential radio address on the progress the US has made in the energy sector over the past four years. A possible theme could be that our energy situation has improved through the operation of market forces, combined with prudent security measures, but that nevertheless work remains to be done to consolidate these gains. Mr. Wallis suggested such a Presidential address could also be used to push natural gas

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decontrol. Mr. Martin said the NSC would still concern itself with energy security issues even though the EPC might look at energy trade issues.

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INTERNATIONAL ENERGY SECURITY GROUP
September 10, 1985

List of Attendees

Department of State

Under Secretary Wallis, Chairman
Stuart Allan, EB/ERP/ECC
Ellie Busick, OES/NEC
Robert Cekuta, NEA/ECON
Malcolm Churchill, EAP/ANZ
Charles Higginson, EB/ERP/EPC
John Hope, EUR/RPE
Robert Knickmeyer, NEA/ECON
Eric Melby, E
Charles Patrizia, S/SA
William Piez, EAP
Robert Reis, EAP/J
Daniel Serwer, EB/ERP/ECC
Alan Wendt, EB

CIA


David Low, NIC

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Department of Commerce

David Diebold
Steven C. Goldman
Doug Perry

Department of Defense

Lorraine Hricik, ISA

Department of Energy

George Bradley, IE
John R. Brodman, IE

NSC

William Martin
Christina Luhn

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OMB

Dan Taft
John Pfeiffer, ESD

Department of Treasury

Charles Schotta
Ernie Chase

USTR

Robert Reinstein

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Remarks

Executive Secretary

5 March 1985

Date

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S/S 8506460
United States Department of State

Washington, D.C. 20520

Executive Registry

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March 4, 1985

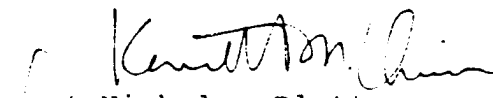
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Senior Interagency Group No. 34

TO: NSC - Mr. Robert Kimmitt
CIA - Mr. Thomas Cormack
Commerce - Mrs. Helen Robbins
Energy - Mr. William Vitale
Defense - Col. R.J. Affourtit
Interior - Mr. Stephen Gleason
OPD - Mr. John Svahn
Transportation - Mr. Logan H. Sallada
Treasury - Mr. Edward Stuckey
USTR - Mr. Dennis Whitfield

SUBJECT: IESG Meeting: Summary of Discussion

Attached are a summary of Discussion of the IESG meeting held on February 20, 1985, and a list of those who attended.


Nicholas Platt
Executive Secretary

Attachments: a/s

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DECL:OADR



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The IESG, chaired by Allen Wallis, Under Secretary of State for Economic Affairs, met on February 20 to discuss a wide range of recent energy developments.

I. Current Oil Market Developments

Mr. Mares (DOE) opened the discussion with a review of recent oil market developments. He said that DOE foresees downward pressure on prices this spring and continuing difficulties for OPEC in its attempts to stabilize prices. DOE expects that non-OPEC production will cover the slight increases in demand expected during 1985. [] (CIA) agreed with Mr. Mares' assessment and added that the CIA believes another price cut is likely in 1985, possibly as early as spring. Mr. Wallis noted that Saudi Energy Minister Yamani was eloquent but unconvincing during his recent visit to Washington, which revealed the wide gap between our free market approach to oil prices and Yamani's view that it is in our interest to support "market stability."

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II. Recent Developments in European Gas Situation

Mr. Wallis asked Mr. Wendt (State) to open discussion on HMG's recent decision not to approve the British Gas Corporation contract for the purchase of gas from the Norwegian Sleipner field. Mr. Wendt noted that HMG's decision was premised on the view that recent upward revisions in estimates of indigenous UK gas reserves made the Sleipner contract unnecessary. The British argue that their decision on Sleipner actually strengthens European gas security by making additional indigenous gas available to the continent. Mr. Wendt, however, expressed doubt that UK gas reserves will be sufficient to cover expected demand in the next decade and voiced concern about the possible effect of the Sleipner decision on the development of the Norwegian Troll field, which has always been viewed as the alternative to new Soviet gas in meeting West European gas demand in the late 1990s and early in the next century. Mr. Wendt said that he had asked HMG for its supply analysis regarding the new domestic reserves. In light of the UK's decision, he believed a full and frank discussion of the gas issue at the IEA Ministerial in July was all the more important.

Mr. Mares also questioned whether UK supplies were sufficient to replace Sleipner, adding that there are efforts underway in both the USG and IEA to study the European gas situation before the IEA Ministerial scheduled for July.

Mr. Martin (NSC) characterized the Sleipner decision as a blow to our strategic concerns. Even if the UK had sufficient

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reserves, the sale of Sleipner gas to the continent could effectively block Troll development; what gas demand that couldn't be met by Sleipner would then be met by the Soviets. He suggested we have to go back to the drawing board to see where we stand in regard to the conclusions on gas agreed at the May 1983 IEA and OECD Ministerials, and to decide if further actions are necessary. Mr. Wallis requested the CIA do a study on the effects of the Sleipner decision and of falling oil prices on the development of Troll. [] said the CIA was already working on a comprehensive study of energy developments in the North Sea. Mr. Fairbanks (State) pointed to a recent cable from Embassy London that advised USG silence on HMG's Sleipner decision would be taken in the UK as acceptance of it. Mr. Wendt said he had met with the British Embassy's Commercial Minister and Energy Counselor and registered the USG's strong disappointment. Mr. Wallis said the USG should weigh carefully whether a further response was necessary.

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III. Recent Developments in the IEA

Moving to IEA topics, Mr. Mares pointed out that DOE and State are working closely together to prepare for the July IEA Ministerial. He outlined DOE efforts to achieve Ministerial endorsement of renewed efforts to foster increased collaboration in international R&D.

Mr. Wendt stressed the need to review progress on the IEA Ministerial conclusions of May 1983. The USG will want in particular a full and frank discussion of natural gas, based on the Secretariat's current work. He added that coal, nuclear, and producer-consumer relations, each of which was discussed at the 1983 Ministerial, will also be discussed.

Mr. Wendt added that the Ministerial should also reaffirm the July 1984 Governing Board declaration on stocks and emergencies and review follow-up efforts on that decision; the meeting should also address briefly plans for the AST-5, and take note of energy-related environmental concerns. In response to a query from Mr. Wallis, Mr. Wendt said that the issue of producer-consumer dialogue would probably not go away completely, but there is substantial opposition to any kind of multilateral dialogue, and future discussion of this issue can be confined for the most part to the IEA's Group on International Energy Relations. Mr. Pearlman (Interior) expressed some concern that Ministerial review of the July 1984 Governing Board declaration on stocks could lead to a watering down of that commitment. Mr. Wendt acknowledged there was some

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risk but emphasized the need for Ministerial recognition of the declaration to avoid backsliding.

Mr. Martin emphasized the need to do solid and early analytical work on the gas issue so the USG can effectively influence the IEA Secretariat's efforts. The USG should have data on whether the West Europeans are making progress on a full range of gas security measures, including stocks, grid development and shut-in capacity. He stressed the need for developing the analytical side. Mr. Robinson (NSC) drew attention to NSDD 155 and the need for developing a game plan on the gas issue for presentation to the SIG-IEP.

IV. Report on the US-Japan Energy Working Group Experts Meeting

Mr. Martin provided a comprehensive report on the recent meeting of the U.S.-Japan Energy Working Group experts, which he characterized as having the "best atmosphere" in two years of discussions. The meeting achieved progress in a number of areas, most notably pre-feasibility studies on North Slope gas and steam coal exports. The experts also discussed continued Japanese stock building commitments, increased Japanese product imports, and the Sakhalin project, for which the Japanese agreed there would be no special treatment. Mr. Wallis stressed the need for timely completion of preparations for the next meeting of the full Energy Working Group, scheduled for mid-March.

V. U.S. Oil Exports

Mr. Wallis noted that the issue of U.S. oil exports needs to be addressed in a comprehensive way. Mr. Mares said DOE is looking at the possibility of the freer movement of U.S. oil to Canada. Oil from Cook Inlet, which might go to Japan, could be subject to the same approach. Mr. Mares added that DOE has not recently looked at the issue of oil exports from the North Slope because of complications this might create for a new Export Administration Act.

Mr. Wendt pointed out that the Canadian Government is moving toward deregulation of its oil exports. U.S. oil exports are legally possible under current statutes--although there are tight restrictions limiting the export of North Slope oil-- but possible political problems need to be addressed. Mr. Wendt added that the USG will want to move on oil exports to both Canada and Japan, but we do not want our efforts to open up one avenue for oil exports to be held up by difficulties with the other. Mr. Wallis asked Mr. Mares to

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lead the work on U.S. oil exports generally and to work closely with Commerce and State. He noted SIG-IEP concern about the effects of an Administration initiative in this area on efforts to obtain a new Export Administration Act. Mr. Robinson added that the questions of including North Slope exports in any discussion of U.S. oil exports or of pressing for legislative action should not be prejudged. This issue should go to the SIG-IEP for decision.

Discussion then moved to the question of electricity imports from Canada. Mr. Wendt pointed out that the USG is not trying to restrain electricity imports but would like to assure that there is a fair opportunity to meet New England's electricity needs from U.S. sources. Mr. Pearlman noted there was concern about the security implications of linking the price of imported electricity to the price of oil. Mr. Wendt explained that the Canadian price was linked to a number of fossil fuels and that increased electricity imports would reduce the importance of oil in the mix. Mr. Wallis concluded that it was not important for the USG to focus on the precise terms of these electricity purchases, since the USG is not the purchaser.

VI. Energy Policy and Conservation Act (EPCA)

Mr. Mares addressed EPCA's impending expiration and summarized two approaches to new EPCA legislation. Key players in the House would like to see a simple extension, whereas the Senate is interested in substantially changing EPCA's current language. Mr. Mares said DOE is reviewing exactly how to approach EPCA, but does not necessarily expect new legislation before the July IEA's Ministerial. Extension on a month-by-month basis is a possibility. It was noted that a lapse of EPCA would be somewhat embarrassing at the Ministerial and that if extension were not obtained before the fall, the U.S. could not participate in the scheduled AST-5. Mr. Pearlman commented that Secretary Hodel will suggest in the near future that the Cabinet Council on Natural Resources and the Environment review in tandem the questions of EPCA and economic response measures in an energy emergency.

VII. Refined Product Imports

Mr. Reinstein (USTR) opened discussion on the issue of refined product imports, noting that this question could be viewed either as an energy security or trade policy issue. He said USTR's view is that this is not a security issue, but that U.S. refiners are asserting that product imports threaten our

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energy security. A key question is who will absorb new refined product exports coming on line globally. Hearings on this issue are tentatively scheduled for late March before a subcommittee of the House Government Operations Committee. Mr. Mares drew attention to a National Petroleum Council study on this issue, which should be completed by the end of the year. Mr. Wallis expressed the view that as long as the U.S. refines more crude than it produces domestically, the U.S. is not increasing its dependence through imports of product.

VIII. Energy Security Aspects of Tax Changes

Mr. Schotta (Treasury) gave an overview of the Administration's tax simplification proposal as it relates to energy and commented on DOE concerns about the proposal's implications for domestic energy production. He acknowledged some transitory adverse effects for domestic production. Analyses differ; some indicate that smaller independents might be hurt more than the majors. He stressed that one should look at the outcome beyond the transitory stage. Mr. Mares added that many independents believe they will not make it through the transitory stage. Mr. Wallis asked that the IESG keep an eye on the energy security aspects of this issue.

Mr. Wallis recommended that another IESG meeting be held in about a month, with a shorter agenda.

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INTERNATIONAL ENERGY SECURITY GROUP

February 20, 1985

3 p.m.

Operations Center Conference Room
Department of State

State

Under Secretary Wallis, Chairman
Ambassador Fairbanks, Co-Chairman
Robert Cekuta
Elinor Constable
Stephen Gallogly
Charles Higginson
John Holmes
Richard Howarth
Kevin McGuire
Charles Patrizia
Lucian Pugliaresi
Robert Reis
Daniel Serwer
David Sloan
Allan Wendt

NSC

William F. Martin
Roger W. Robinson

Commerce

H.P. Goldfield
Joseph Yancik
Douglas Perry

Energy

Jan W. Mares
Jack Silvey

USTR

Robert Reinstein

Treasury

Charles Schotta
Ernest Chase

CIA



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Defense

Dave Tarbell
William George

OMB

James Nix
Arnold Brooks
Joseph Hezir

Interior

Donald H. Pearlman

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Remarks

Executive Secretary
14 February 1985

Date

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United States Department of State

Washington, D.C. 20520

February 13, 1985

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Senior Interagency Group No. 34

TO : NSC - Mr. Robert Kimmitt
CIA -
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Energy - Mr. William Vitale
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Interior - Mr. Stephen Gleason
OPD - Mr. John Svahn
Transportation - Ms. Linda Arey
Treasury - Mr. Christopher Hicks
USTR - Mr. Dennis Whitfield

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SUBJECT: International Energy Security Meeting:
February 20, 1985

Under Secretary Wallis will chair a meeting of the International Energy Security Group (IESG) on Wednesday, February 20 at 3:00 PM in the Operations Center conference room (room 7516) of the State Department. We ask that you notify your representative(s) of the meeting. Attendance will be limited to members of the IESG (or alternates) plus one.

The agenda for the meeting, and the agency responsible for leading discussion on each topic, follow:

- I. Oil Market Developments (DOE/CIA)
 - market trends
 - OPEC deliberations and prospects
- II. Recent Developments in European Gas Situation (State)
 - Sleipner decision
 - implications for Troll development
- III. Recent Developments in the IEA
 - plans for Ministerial (State)
 - update on gas study (State)
 - read-out of producer/consumer discussion (State)
 - R&D cooperation (DOE)

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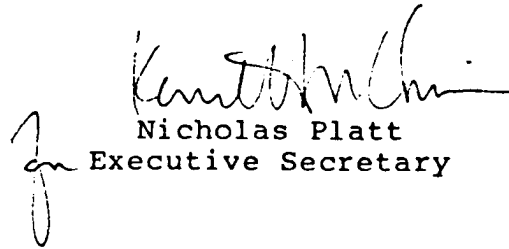
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- IV. Report on the U.S./Japan Energy Working Group Experts Meeting (NSC)
-- preparations for full Energy Working Group meeting during March Sub-Cabinet meetings
- V. U.S. Oil Exports (State/DOE)
-- status of preparations for Reagan-Mulroney meeting
-- status of DOE/Commerce paper on U.S. oil exports
- VI. Energy Policy and Conservation Act (DOE)
- VII. Refined Product Imports (State/DOE/USTR)
- VIII. Energy Security Aspects of Proposed Tax Code Changes on Domestic Oil Production (DOE/Treasury)
- IX. Other Business

Please provide Ron Parson (632-0792) with the name(s) of your agency's representative(s).


Nicholas Platt
Executive Secretary

Attachment:

List of Representatives and Alternates to the IESG

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Revised 2/12/85

MEMBERS OF THE INTERNATIONAL ENERGY SECURITY GROUPNational Security Council

William F. Martin 395-3440
Special Assistant to the President and
Senior Director for Coordination
National Security Council
Room 368 - OEOB

Roger W. Robinson 395-3622
Senior Director of International
Economic Affairs
National Security Council
Room 365 - OEOB

White House Office of Policy Development

Martin Smith 456-7993
Special Assistant to the President for
Policy Development
Room 234 - OEOB

Office of Management and Budget

Frederick Khedouri 395-4844
Associate Director for Natural
Resources, Energy and Science
Room 260 - NEOB

Alternate: Daniel Taft 395-3285

Department of Energy

Jan W. Mares 252-5800
Assistant Secretary for International
Affairs and Energy Emergencies
Room 7C-016, Forrestal Building

Alternate: George Bradley 252-5858

Department of Treasury

David C. Mulford 566-7993
Assistant Secretary for International
Affairs
Room 3430

Alternate: Charles Schotta 566-5881

Department of Commerce

Lionel H. Olmer 377-2867
Under Secretary for International
Trade
Room 2867

H. P. Goldfield 377-1461
Assistant Secretary for Trade
Development
Room 3832

Department of Defense

Fred C. Ikle 697-7200
Under Secretary for Policy
Room 4E-830 - Pentagon

Alternate: David Tarbell 695-2659

Department of Interior

Richard R. Hite 343-6182
Acting Assistant Secretary for
Policy, Budget & Administration
Room 5100

Department of Transportation

Matthew V. Scocozza 426-4544
Assistant Secretary for Policy
and International Affairs
Room 10228
400 - 7th Street, S.W.

Alternate: Donald Igo 426-0780

Office of the US Trade Representative

Charles H. Blum 395-7320
Assistant U.S. Trade Representative
for Industrial Trade Policy
Room 407 - WINDER BUILDING
600 - 17th Street, N.W.

Alternate: Robert Reinstein 395-7200

- 2 -

Central Intelligence Agency

[Redacted]
Acting National Intelligence Officer
for Economics
Room 5G-00

Alternate: [Redacted]

Department of State

Allen Wallis 632-3256
IESG Chairman
Under Secretary for Economic Affairs
Room 7256

Richard Fairbanks 632-1868
IESG Co-Chairman
Ambassador-at-Large S/SA
Room 7527

Alternate: Charles Patrizia 632-1868

Paul D. Wolfowitz 632-9596
Assistant Secretary for East Asian
and Pacific Affairs
Room 6206

Alternate: Richard Howarth 632-0366

Richard W. Murphy 632-9588
Assistant Secretary for Near Eastern
and South Asian Affairs
Room 6244

Alternate: James Placke 632-9076

Peter Rodman 632-2372
Chairman, Policy Planning Council
Room 7311

Alternate: Lou Pugliaresi 632-9571

Elinor G. Constable 632-7950
Acting Assistant Secretary for Economic
and Business Affairs
Room 6828

Alternate: E. Allan Wendt 632-1498

Department of State (Cont'd)

Richard Burt 632-9626^{25X1}
Assistant Secretary for European
and Canadian Affairs
Room 6226

Alternate: Thomas Niles 632-9626^{25X1}

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17	AO/DCI				
18	C/IPD/OIS				
19	NIO/ECON		X		
20	D/OGI		X		
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Remarks

Executive Secretary

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Washington, D.C. 20520

January 10, 1985

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Senior Interagency Group No. 34

TO: NSC - Mr. Robert Kimmitt
✓ CIA - Mr. Thomas Cormack
Commerce - Mrs. Helen Robbins
Energy - Mr. William Vitale
Defense - Col. R.J. Affourtit
Interior - Mr. Stephen Gleason
OPD - Mr. John Svahn
Transportations - Mr. Logan H. Sallada
Treasury - Mr. Christopher Hicks
USTR - Mr. Dennis Whitfield

SUBJECT: IESG Meeting: Summary of Discussion

Attached are a Summary of Discussion of the IESG meeting held on November 20, 1984 and a list of those who attended.

Nicholas Platt
Executive Secretary

Attachments: a/s

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INTERNATIONAL ENERGY SECURITY GROUP

November 20, 1984

Summary of Discussion

Mr. Wallis opened the meeting by introducing two new members of the IESG, Jan Mares (DOE) and [] (CIA). He then characterized the current state of disarray in the oil market. At his request, Mr. Wendt (State) continued with a description of OPEC's efforts to prop up oil prices. He noted that OPEC has suggested that the USG somehow orchestrated the recent drop in oil prices; OPEC members cannot believe that Norway and Britain acted on their own accord. Spot market prices are still lower than official prices. Lastly, Mr. Wendt stated that the problem of oil price differentials within OPEC will be difficult for OPEC members to resolve.

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Mr. Pearlman (DOE) remarked that Secretary Hodel, concerned that USG silence on recent developments in the oil market would be misinterpreted, has emphasized in recent statements the importance of underlying market forces. Mr. Wallis commented that visiting Mexican Under Secretary of Energy had told him the previous day that the market cannot work in the case of oil; he had responded that it could, and was the appropriate way to handle the question. Mr. Mares added that although Mexico had announced that it expected customers to reduce crude oil purchases, he had told the visiting Mexican Under Secretary that the USG did not anticipate that this cutback would affect the USG contract for 50,000 barrels per day for the Strategic Petroleum Reserve (SPR).

Under Secretary Wallis then reviewed issues raised at the October meeting of the Governing Board of the International Energy Agency, especially those that will arise during the December 6-7 visit of IEA Executive Director Helga Steeg. He wanted to be certain that USG representatives spoke with one voice on these issues.

The first issue concerned the scheduling of the next IEA Ministerial meeting, to which the US will not agree unless a serious agenda item on natural gas security is included. Mr. Wallis suggested that the USG position was particularly appropriate in light of the Soviet energy "boycott" of the UK

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in sympathy with the UK miners' strike. Bill Martin (NSC) noted that adequate preparation for the Ministerial would take about a year; the best time for a Ministerial thus might be in the autumn of 1985, a view other participants also held. Mr. Wendt reported that Scandinavian countries were holding elections in late summer 1985, and sought a Ministerial either in July or in the autumn; he expected strong pressure from other IEA members for a meeting before the summer break. Mr. Martin observed that, if preparatory work could be done properly in time for a July meeting, perhaps it would be best to go ahead then. Mr. Mares reported that AST-5 would take place in October or November next year, and that the Ministerial should not be scheduled at the same time.

Mr. Tarbell (DOE) said that the USG should be careful that its possible delay of a Ministerial not be used as an excuse to hinder progress on the IEA natural gas work program.

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In response to a question by Mr. Robinson (NSC), Mr. Wendt replied that the European portion of the gas demand study should be available for review in the Standing Group on Long-term Cooperation (SLT) in January 1985.

Mr. Wallis noted that the second issue for the Steeg visit was the producer/consumer dialogue sought by some of the smaller countries in the IEA. The USG firmly opposes any multilateral dialogue on this subject. Mr. Pearlman pointed out that there would be, however, a price to be paid if we refuse to discuss this question within the IEA. Mr. Wallis mentioned that some see little harm in a limited discussion within the IEA. Mr. Wendt noted there is in any case little apparent enthusiasm for such a dialogue among OPEC members. Moreover, he said, the countries advocating the dialogue are never able to specify precisely what they have in mind. What "misunderstandings" will be cleared up by such a dialogue? Mr. Wendt suggested that perhaps the topic could be included in the agenda for a Governing Board luncheon; a separate meeting was neither necessary nor desirable. Mr. Schotta (Treasury) added that the issue of energy project loans by multilateral development banks might be raised during Steeg's visit. He advised USG officials to respond that developing countries should rely on private sources for financing these projects.

With respect to the issue of emergency preparedness, Mr. Wallis stressed the need for vigorous follow-up to the July 11 Governing Board decision on oil stocks and supply disruptions. He stated that the USG would continue to pressure other nations to increase their oil stocks. With respect to AST-5, Mr. Wendt

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reported that the development of test procedures has been satisfactory. He noted the general agreement of members that the test is a technical and training exercise and that there will be no price element included. Issues remaining to be resolved are the roles of demand restraint and stock draw.

Under Secretary Wallis then briefly described the meeting of the US/Japan Energy Working Group on September 21. As in previous meetings of the group, the USG participants had emphasized that US companies wanted to sell more coal, and Japanese said they wanted to buy Alaskan oil. The USG has had some success, he stated, in halting the decline in sales of metallurgical coal; that decline, however, seems to have recently resumed. Mr. Wallis noted that US private industry and the Japanese continue to blame high transport costs for weak US coal sales. Slurry pipelines could reduce these costs, he noted, but most members of the Congressional Coal Caucus voted against them. Mr. Wallis went on to point out that the Japanese have not built up their oil stocks sufficiently, even though they are far more vulnerable to a supply disruption than we.

Mr. Martin reported that the next meeting of the US/Japan Energy Working Group experts is tentatively scheduled for early February. He noted that a MOFA-sponsored conference on energy cooperation in the Pacific Basin will take place at about the same time. Mr. Yancik (Commerce) stated that the US coal industry wanted to convene a meeting of the private sector Standing Technical Committee in-between the meeting of the energy experts and the sub-Cabinet bilaterals slated for late February or early March.

The Under Secretary then opened the floor for suggestions on topics the IESG might wish to discuss in the future.

Mr. Pearlman said that the Department of Energy was preparing a comprehensive legislative package on emergency preparedness because of the mid-1985 expiration of the Energy Policy and Conservation Act (EPCA). The legislative package would include selective renewal of certain portions of the EPCA on the SPR and the IEA; proposals on economic response measures in major supply disruptions; the more desirable parts of S1678 (Senator McClure's bill) on emergency reserves and preemption of state laws; and a test sale of oil of 1.1 million barrels from the SPR. He suggested that the IESG and the Emergency Response Group might meet as one group to consider certain aspects of this effort. Mr. Pugliaresi (State) suggested that the future of US oil refineries could become an issue in Congress as OPEC countries bring more of their own refineries on line.

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Martin Smith (OPD) said that one component of a Congressional debate on possible protection for domestic refiners could be the "Super Fund" tax. If that tax rate is quintupled, US refiners could be at a competitive disadvantage. Mr. Reinstein noted that USTR is following the evolving situation of domestic refiners as a trade issue.

The meeting was adjourned by Under Secretary Wallis at 1:45 p.m.

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